WHAT HAVE YOU DONE FOR ME LATELY? CREATING SHARED VALUE BETWEEN THE STATE OF SOUTH CAROLINA AND AMAZON

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This paper explores how governments and firms can create shared value with their stakeholders. Often, state and local governments use tax cuts or other types of incentives to entice firms to locate within their area. While tax abatements remain useful incentives to help governments achieve job creation goals, those same cuts may create undue burdens for stakeholders such as taxpayers, and local businesses who do not benefit from tax cuts. This illustrative case looks at how Amazon.com and the State of South Carolina arranged for the building of a new fulfillment center in Lexington, SC.

INTRODUCTION

To illustrate, we look at the recent negotiations between the State of South Carolina (SC) and Amazon as an example of a deal that could have created shared value beyond job creation and tax cuts. Amazon and the SC legislature recently completed a deal for the building of an Amazon fulfillment center in SC. Amazon.com, a major player in e-commerce, has been able to extend itself globally by leveraging its technological competitive advantage. In continuing support of its ongoing mission which is to be "Earth's most customer-centric company for three primary customer sets: consumers, sellers, and enterprises" (Amazon.com Inc, 2010, p. 41), the company decided to build a distribution center, located in Lexington, South Carolina (SC). Amazon.com also began its employee search and building start in 2011.

To incent the company to locate to Lexington, South Carolina and Lexington County granted Amazon approximately 90 acres of land, a five-year exemption from charging SC residents state sales tax, capital property tax cuts, and state job tax credits. Further, the long-standing Sunday-morning sales restrictions were lifted so that Amazon could fill orders around the clock (Flach, 2011b). At the time of the negotiations, South Carolina had been experiencing some of the highest unemployment in the country. The Bureau of Labor listed South Carolina's unemployment in August 2011 at 10.9%, causing the state to be ranked at 48 out of 50 in unemployment. In return, for the building and tax concessions, and to help meet SC legislative goals for job creation, Amazon.com intended to hire primarily from within SC, adding 1,250 jobs in the first year, with an additional 750 jobs over the next five years. The following table presents the estimated costs of the deal for Amazon and South Carolina.

TABLE 1
ESTIMATED COSTS FOR FIRST FIVE YEARS OF OPERATIONS

	Amazon	**SC**
Estimated cost of 90 Acre Land Grant and other concessions		(4,000,000)
Estimated Tax Break Impact in first five years of operation ($2.5 Million per year)		(12,500,000)
Estimated Income to SC from collecting Amazon payroll and property taxes in first five years		11,000,000
Gain of jobs in first five years		2,000
Estimated Cost to Amazon for building	125,000,000	
Estimated Total of major costs during the first five years	**$ 125,000,000**	**$ (5,500,000)**
Estimated Twenty Year Gain to SC after 20 years of operations		$ 1,700,000,000
Estimated Long-Term Gain to SC Revenue after 20 years		**$ 1,694,500,000**

* (Flach, 2011a)

Governor Nikki Haley staunchly opposed the SC sales tax exemption because many local businesses believed that the exemption would create an unfair tax advantage to SC firms. Even though Governor Haley initially opposed the tax breaks, she capitulated by not vetoing the bill, nor did she approve the final decision by the SC legislature to give Amazon.com the breaks. The SC legislature let the deal pass, with the notion that building the distribution center, job creation, and staffing from the local labor pools would count towards South Carolina's economic recovery. While construction and job creation are beneficial to the community, they also created a tradeoff paid for by taxpayers.

Despite the projection of adding 2,000 jobs in the next five years, Governor Nikki Haley staunchly opposed the SC sales tax exemption because many local businesses believed that the exemption would create an unfair tax advantage to SC firms. South Carolina, which focused on revenue generation and job creation, expects to net $11 million in payroll and property taxes per year regardless of losing the SC state sales tax revenues from Amazon (Flach, 2011b). In this example, both parties stuck to "quid pro quo" negotiations essentially ignoring many local stakeholder interests and the ability to create shared value for the community.

BRIEF HISTORY OF AMAZON.COM

Amazon.com claims they meet customer needs by providing a vast selection of low-price merchandise coupled with the convenience of home delivery, and in many cases, frustration-free packaging. Amazon.com began in 1995 as one of the earliest online bookstores. Jeff Bezos started the online bookstore in his garage in Seattle Washington and within 30 days, the company sold books online to customers in all 50 US states as well as in 45 countries (Amazon.com, n.d.). Amazon.com is a 24x7 e-commerce retailer with over 33, 000 employees. They maintain eighteen fulfillment centers in the US, and nine international fulfillment centers in countries like Japan, Ireland, China, Costa Rica, and India. The company has software development centers in Ireland, Scotland, India, and South Africa (Amazon.com, n.d.).

Since 1995, Amazon.com leveraged its technology advantages to offer customers personalized services such as "1-Click® Shopping" (Amazon.com, n.d.), Wish Lists, personalized suggestions, and customer reviews of products. The company operates in several countries including the United Kingdom, Germany, Canada, and France. Recently, they added, or launched, online retailers ShopBop.com, Zappos.com, and Endless.com to their business. The firm leveraged its technological advantages to third parties by introducing its e-commerce platform to other e-commerce retailers (Amazon.com, n.d.) Amazon.com maintains a large inventory of downloadable films, and TV shows, and they continue to expand their store concepts (e.g. Groceries, Motorcycles, etc.) each year. A notable addition to their inventory was the introduction of the Kindle e-book reader in 2007 which is now its third generation (Amazon.com, n.d.)

Amazon.com's focus for growth and stability since its beginnings has been upon shareholders, customers, and exploiting technology efficiently. The 2010 Letter to Shareholders (Bezos, 2010) emphasizes the firm's focus on maintain shareholder primacy, and improving their offerings for customers. Bezos' 2010 letter also notes that Amazon's future intent is to expand and exploit its technological advantages to enhance profitability.

NIKKI HALEY, GOVERNOR OF SOUTH CAROLINA

Nikki Haley is the nation's youngest governor at age 39 (Severson, 2011). Governor Haley ran as a fiscal conservative becoming South Carolina's first female and ethnic minority governor (Stech & Wenger, 2010). She hails from SC where she was born in Bamberg, SC, to Indian immigrants. Her first job was in her family's clothing store where she engaged in bookkeeping and she started the job when she was 13. She attended and graduated from Clemson University with a B.S. degree in accounting. Upon graduation, she worked as an Accounting Supervisor for FCR Recycling, Inc. and five of its subsidiaries. Eventually she returned to the family business growing it into a multi-million dollar operation (NikkiHaley.com, 2010).

Governor Haley is reported to be relentless in budget cutting and job creation (Severson, 2011). Part of her jobs creation record includes Amazon.com's bid to build a distribution center in Haley's home county of Lexington, SC. In order to increase job creation in SC, Gov. Haley claims that the incentives for Amazon.com to move and build in SC were needed to attract not only Amazon.com but hopefully other firms as well. She eventually balked at the deal because many of her constituents based in her home county of Lexington deemed the sales tax concession as unfair to local businesses. In the end, she said that the she would let the legislature decide on the sales tax exemption and that when it came to her desk for signing—she would not veto the action, but she would not sign the bill, allowing it to become law without her approval.

AMAZON.COM'S OPPOSITION

Those most opposed to the bill becoming law spent nearly $166, 000 for lobbyists to halt the sales tax break. To fight back, Amazon.com disclosed spending nearly $200, 000 for lobbyist (Flach, 2011b). According to Flach, the total amount was more because neither side was compelled to disclose total costs. The executive director of the SC chapter of Common Cause claimed that the costs to battle the sales tax break could near $2 million. Among those opposed to the Amazon.com deal was the SC Alliance for Main Street Fairness, which formed a coalition of local businesses.

Overall, Amazon.com will build the fulfillment center at a cost of $1-1.25 million dollars. Flach (2011) notes that of that cost, there is no mention by either party of the trickle-down effect into the community. To help support South Carolina's desire to collect sales tax, Amazon.com will send SC residents notices to remind them to pay their sales tax to the state (Flach, 2011b).

CREATING SHARED VALUE

Value is perceived as a cost / benefit relationship where value is the benefits received compare to the costs spent. Shared value is created when firms change their long-term vision of their products and markets, by redefining productivity in the value chain, and by supporting local cluster development (Porter & Kramer, 2011). Shared value, according to Porter and Kramer,(2011) is a state between business and society that moves beyond tradeoffs, or 'quid pro quo' by creating greater economic and social value by focusing "on the connections between societal and economic progress" (p. 65) When firms engage in shared value, they help the entire value chain, expand, and increase productivity and profitability. Shared value moves firms beyond the interests of primary stakeholders (e.g. shareholders, employees, customers) by engaging a larger spectrum of stakeholders (Porter & Kramer, 2011).

When firms change their long-term vision of their products and markets they explore how to meet societal needs in new, creative ways, and still create profit for their firms. Firms might explore dis-advantaged markets, and create products for those markets that not only improve their environment but also add to corporate sustainability. In re-defining productivity in the value chain, Porter and Kramer (2011) claim that companies must look at their impact to the environment supplier access and viability of resources, employee skills, worker safety, employee health, and water and energy usage.

For instance, Wal-Mart reduced its packaging and re-routed its trucks to cut costs, saving $200 million (Porter & Kramer, 2011). Along similar lines, UPS worked to retrofit its air transportation fleet, and redesign its routes to cut costs and save on carbon emissions (UPS.com, n.d.). By using less fuel, and reducing carbon emission, both companies created value for society, and they created value for the firms by reducing costs. In supporting local cluster development, firms can expand their impact in a community by developing local suppliers and helping to train local employees to improve the pool not only for them, but also for the surrounding community. Companies can also work with the local business and academic community on important projects that benefit all members of the community (Porter & Kramer, 2011).

Porter and Kramer (2011) claim that shared value is not for firms only; shared value is for governments and Non-Governmental Organizations as well. They must first change their focus from the amount of time and money expended on social programs to a view that focuses on how much benefit is achieved from the expenditure. Governments must focus on how to support and facilitate innovation within their clusters as opposed to engaging in traditional trade-offs between economic development and societal benefit.

STAKEHOLDER MANAGEMENT

Stakeholders include groups and individuals who have interests in a corporation and are affected by the achievement of corporate missions (Freeman, 2008). Corporations classify stakeholders based upon stakeholder claims or interests in the corporation (Donaldson & Preston, 2008) and they identify and respond to stakeholder claims based upon the saliency (i.e. power, urgency, legitimacy) of stakeholder issues to the firm. Firms will most likely respond to their dominant coalition (e.g. shareholders and customers) more rapidly than less dominant coalitions or stakeholders (Mitchell, Agle, & Wood, 1997); thus, firms may defer any attempts to create shared value with other stakeholders to gain legitimacy with their primary stakeholders.

While many firms still hold to the notion that shareholders are their primary stakeholders, for whom they work and must be profitable (Friedman, 1970), this clearly is not the case any longer (Freeman, 2008). Garcia-Castro, Ariña, and Canela (2011) find that when firms focus on shareholder maximization, they may remain profitable in the short-run, but over the long-term, those same firms may not create shareholder value. They state that this happens when firms engage in instrumental stakeholder actions rather than normative stakeholder actions. Instrumental stakeholder actions focus on how firms can improve firm performance; whereas, normative stakeholder actions, which engages manger's ethical norms and focuses on building relationships and commitments with a greater realm of stakeholders, can maximize profits over the long-run. The issue for managers when they engage in a long-run view is that they may need to make trade-offs that may jeopardize short-term profits (Garcia-Castro, et al., 2011).

C**ONCLUSION**

In this case, we provide a brief example of "quid pro quo" negotiation between Amazon and the State of South Carolina. Amazon kept its eye on shareholder value creation while SC kept its eye on revenue generation. This case poses several questions to consider:

1. How could Amazon, the South Carolina State Legislature, and the county of Lexington, SC arrived at creating shared value for the greatest number of stakeholders?
2. What is the stakeholder map for Amazon and the governments involved, who was excluded, or who could have been included?
3. What is the nature of the various stakeholder stakes? Are they owners or community members?

4. Can a firm like Amazon transfer its competitive technological advantage to the community as a means to improve the value chain and create shared value for all stakeholders? If so, how might that be accomplished?
5. Could the state of South Carolina, or Lexington County, have asked for more?

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